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INFORMED BUDGETEER

BUDGET RESOLUTION: WHAT'S IN THE BLUEPRINT?

- Last week's *Bulletin* went to press with just the numbers of the conference report on the Concurrent Resolution on the Budget for Fiscal Year 2000, H. Con. Res. 68. This week, we take a look at some of the important details of the resolution.

Reconciliation Instructions

- There is only one instruction--for the tax writing Committees. Those two Committees are instructed to report a reconciliation bill proposing changes necessary to reduce revenues by $142 billion over 2000-2004 (no revenue change is allowed for 2000 unless it is offset) and by $778 billion over 2000-2009.

- The House Ways and Means Committee is required to report by July 16th, and the Senate Finance Committee one week later, by July 23rd.

- In recent years, legislation implementing such reconciliation instructions would have been subject to a 60-vote pay-as-you-go point of order. This budget resolution (section 207), however, revises the point of order so that it does not apply to bills with tax reductions or spending increases for years in which there is an on-budget surplus. The Senate pay-as-you-go scorecard is adjusted to reflect the baseline on-budget surpluses.

Reserve Funds

- Reserve funds allow the fixed budgetary aggregates and committee allocations specified in the resolution to be adjusted later when legislation meeting the definition of the reserve fund is considered on the floor of the House or Senate.

- Section 202 provides a reserve fund in the House and Senate for legislation that includes structural programmatic reform for enhancing retirement security.

- The reserve fund in Section 203 applies in the House and Senate and allows for a bill that makes structural, not incremental, changes to Medicare, and significantly extends the solvency of the program. This reserve fund also allows that bill to provide additional spending for a prescription drug benefit, as long as the legislation does not cause an on-budget deficit.

- Section 204 provides a reserve fund of $6 billion in the House and Senate for legislation that provides risk management tools (including crop insurance) and/or income assistance to agricultural producers.

- Section 205 provides a reserve fund only in the Senate for a bill that permits taxes beyond the reconciliation instructions, as long as those additional cuts are offset by mandatory spending cuts.

- Section 210 provides a reserve fund only in the Senate for a bill that finances certain programs that foster the employment and independence of individuals with disabilities (S. 331).

- Section 211, for both House and Senate, calls on CBO to update its budget projections by July 1, and if the update shows an on-budget surplus for 2000, allows adjustments, but does not require, to provide for a tax cut of that amount in 2000.

- Section 212, in the Senate only, allows for education legislation that would increase direct spending by changing the purposes for which previously appropriated funds may be spent as long as that bill does not cause a net increase in outlays over five years.

Emergency Spending Point of Order

- Section 206 of the budget resolution includes two new requirements designed to address the growing tendency to circumvent the budget and take money out of the Social Security surpluses by designating it as an "emergency".

- Currently, a provision of legislation that is designated as an emergency requirement by the Congress and the President is effectively exempted from the caps on appropriated spending and the pay-as-you-go requirement for all other legislation.

- First, section 206(a) of the budget resolution adds a new reporting requirement for legislation that includes an emergency provision. The report accompanying that legislation (the statement of managers in the case of conference reports) must analyze whether the proposed emergency meets all of the following five criteria: necessary, sudden, urgent, unforseen, and temporary.

- If the proposed emergency does not meet one or all of the criteria, then the report must justify why the provision constitutes an emergency. The reporting requirement does not determine whether a provision is subject to a point of order. It is designed to provide information on the proposed emergency.

- Section 206(b) provides a 60-vote point of order against the language in legislation that designates a provision as an emergency requirement. The point of order applies whether the emergency meets the criteria, or not. Also, the point of order can be waived even if the proposed emergency does not meet the criteria.

- Section 206 (g) provides an exemption from the point of order for defense spending.

- If the point of order is sustained, the language designating the provision of the bill as an emergency would be extracted from the legislation under a procedure similar to the Byrd rule. The proposed spending itself, however, would remain in the bill and it would be up to the Congress to either strike the spending, offset its cost, or allow a sequester to occur to offset the additional cost of the spending. Section 206 sunsets with the adoption of the FY 2001 budget resolution.

THE SOCIAL SECURITY SURPLUS PRESERVATION & DEBT REDUCTION ACT

- At press time for the *Bulletin*, the Senate was considering an amendment to a budget process reform bill. The amendment would create a lock on the Social Security surpluses.

- The amendment would be effective for ten years and would sunset. This is the same time period covered by the recently adopted Concurrent Resolution on the Budget for Fiscal Year 2000 -- H.Con.Res. 68. It is a period of time in which the Social Security Trust Fund balances are expected to grow by nearly $1.8 trillion. These balances would retire debt held by the public, which would help prepare the country for the retirement of the baby boom generation early in the next century.

Reaffirms Off-Budget Treatment of Social Security Program

- The amendment reaffirms current law that the receipts and disbursements of the Social Security trust funds shall not be counted for the purposes of the federal budget submitted to Congress by the President or any Congressional budget.

- The amendment creates a new budget act point of order against Congress adopting a budget that uses social security surpluses to achieve balance, and requires the President to submit a budget that does the same.

Uses the Social Security Surplus to Reduce

the Debt Held by the Public

- The amendment establishes a new enforceable limit on the amount of debt held by the public over the period from 2000 to 2010. These debt limits specified in the amendment are current estimates of the level of borrowing from the public over this period that result from the social security surplus only being used to retire debt. The surplus could not be used for non-social security spending or tax cuts unless legislation increasing these limits is passed with a super-majority vote in the Senate.

- The amendment establishes the first limit effective as of May 1, 2000, and ratchets down this limit on May 1 of subsequent years. The effective date accommodates Treasury Department's cash management responsibilities. The newly established limits on debt held by the public would not disrupt the cash management operations of the Bureau of the Public Debt nor would it jeopardize Social Security benefit payments. The limits follow:

May 1, 2000 through April 30, 2001	$3.628 trillion
May 1, 2001 through April 30, 2002	$3.512 trillion
May 1, 2002 through April 30, 2004	$3.383 trillion
May 1, 2004 through April 30, 2006	$3.100 trillion
May 1, 2006 through April 30, 2008	$2.775 trillion
May 1, 2008 through April 30, 2010	$2.404 trillion

Adjustments to Limits for:
Social Security Reform, Recessions, Emergencies and War

- Social Security Reform: The amendment authorizes adjustments to the limits for legislation enacted that reforms social security during this time period. If Social Security reform legislation is enacted, and if that legislation has the effect of changing the debt held by the public specified in this amendment, then the Secretary of the Treasury shall adjust the limits in this amendment to reflect those changes.

- Recessions: The provisions of this amendment are suspended during a period of low economic growth. Two consecutive quarters of less than 1 percent real economic growth would automatically make the debt limits in this amendment inoperative. After the recession has ended, the amendment would reinstate new debt limit levels adjusted for the impact of the recession.

- Emergencies: The amendment also provides for an automatic adjustment to the debt limit levels specified if the Congress enacts into law "emergency" spending defined under the Balanced Budget Act. If emergency spending uses a non-social security surplus, then no adjustment to the limits would be necessary. If, however, emergency spending requires the usage of social security surpluses, then the limits specified in the amendment would be adjusted for that amount.

- Declaration of War: The amendment would be suspended upon Congress enacting a declaration of war.

SOCIAL SECURITY AND MEDICARE TRUSTEES' REPORTS

- The Boards of Trustees' of the Social Security and Medicare programs issued their annual reports on the status of the trust funds. The reports provide a modest improvement in the outlook for both programs.

- In the new report, the Medicare Hospital Insurance trust fund will remain solvent until 2015, up from 2008 in last year's report.

- The Social Security trust funds will remain solvent until 2034, up from 2032 in last year's report.

- However, the long-term trend for both programs remains unchanged, with both programs facing severe long-term imbalances in financing.

- In 2075, the actuaries project that Social Security outlays will be 19.9 percent of taxable payroll, while income will be only 13.4 percent.

- For Medicare HI, the actuaries project costs will total 7 percent of taxable payroll in 2075, while income will total only 3.4 percent.

BUDGET QUIZ

QUESTION: When was the statutory limit on the public debt first put in place, and what was the level of the debt limit?

ANSWER: There was no specific statutory debt limit until the enactment of the Second Liberty Bond Act in 1917. The statutory debt limit was put in place with the advent of large-scale borrowing needed to finance expenditures during World War I. Prior to 1917, each issue of federal debt was authorized by legislation which set an issue's interest rates, specified the type of debt, and often set the maturity date.

The law authorized the Treasury to issue bonds "not exceeding in the aggregate $7,538,945,460." During the war, Congress acted to raise the debt limit whenever new debt authority was needed, which was often. The debt of the U.S. government grew to $26.9 billion before the end of World War I in 1918.

BONUS QUESTION: Has there ever been legislation to reduce the statutory debt limit?

ANSWER: Yes! But only once. In June 1946, the statutory debt limit was reduced from $300 billion to $275 billion. The level of debt did not reach $300 billion again until 1962.

CALENDAR

May 3: CBO will release their *1999 Fiscal Policy Options Book* (formerly the Deficit Reduction Volume).

June 2: CBO Economic Panel will meet; 210 Cannon HOB, time TBA.

✎GAO has released a report entitled *Budgetary Implications of Selected GAO Work for Fiscal Year 2000*. The report is available on the Gao web site: www.gao.gov